

**REPORT OF THE AUDIT OF THE
MARION COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MARION COUNTY FISCAL COURT

June 30, 2007

The Auditor of Public Accounts has completed the audit of the Marion County Fiscal Court for fiscal year ended June 30, 2007. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Marion County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$10,497,519 as of June 30, 2007. The fiscal court had unrestricted net assets of \$3,030,090 in its governmental activities as of June 30, 2007, with total net assets of \$10,455,700. Total net cash and cash equivalents for the business-type activities was \$20,424 with total net assets of \$41,819.

Deposits:

The fiscal court's deposits were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$271,655 as of August 31, 2006
- Uncollateralized and Uninsured \$374,345 as of June 30, 2007

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable John G. Mattingly, Marion County Judge/Executive
Members of the Marion County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Marion County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Marion County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable John G. Mattingly, Marion County Judge/Executive
Members of the Marion County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2008, on our consideration of Marion County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized flourish at the end.

Crit Luallen
Auditor of Public Accounts

March 18, 2008

MARION COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

John G. Mattingly	County Judge/Executive
Larry V. Caldwell	Magistrate
John A. Elder	Magistrate
Steve Masterson	Magistrate
Roger Smothers	Magistrate
Jackie Wicker	Magistrate

Other Elected Officials:

Joseph H. Mattingly III	County Attorney
Barry Brady	Jailer
Karen Spalding	County Clerk
Kim May	Circuit Court Clerk
Carroll Kirkland	Sheriff
William U. Scott	Property Valuation Administrator
Dick Moraja	Coroner

Appointed Personnel:

Kevin Cochran	County Treasurer
Theresa T. Wilson	Finance Officer



John G. Mattingly
County Judge Executive

Marion County Fiscal Court
223 North Spalding Avenue, Room 201
Lebanon, KY 40033

Office Phone: (270) 692-3451

Fax: (270) 692-9487

Management's Discussion and Analysis

June 30, 2007

Prepared by Kevin Cochran
Marion County Treasurer

Management's discussion and analysis of Marion County Fiscal Court, Kentucky offers readers of Marion County's financial statements a narrative overview and analysis of the financial activities of Marion County for fiscal year ending June 30, 2007. We encourage readers to review both the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to these financial statements.

Financial Highlights

- ◆ Marion County had total net assets of \$10,497,519 as of June 30, 2007. The fiscal court had \$3,030,090 unrestricted net assets in its governmental activities as of June 30, 2007 that may be used to meet the county's ongoing obligations. Total debt principal was \$8,008,452 with \$463,690 due within one year. The interest due within one year is approximately \$359,078 depending on the variable rates.
- ◆ At the close of the fiscal year Marion County's balance sheet reported a fund balance of \$3,030,090. Of this amount, \$19,846 is for capital projects and \$3,010,244 is available for spending at the government's discretion.
- ◆ Marion County's total indebtedness at the close of fiscal year June 30, 2007 was \$8,018,908, with \$471,995 due in fiscal year 2008 and the remaining \$7,546,913 is long-term debt (due after one year). Debt reductions were \$468,981.

Overview of the Financial Statements

This overview of financial statements is intended to serve as an introduction to Marion County's basic financial statements, which are comprised of three components:

Government Wide Financial Statements

The *Government-wide financial statements* are designed to provide readers with a broad overview of Marion County's finances in a similar way to private sector enterprises. These statements combine and consolidate short-term, spendable resources with capital assets and long-term obligations.

The *Statement of Net Assets* presents all of Marion County's assets and liabilities, with the difference being reported as net assets. This statement is a useful tool to indicate whether the financial position of the county is improving or deteriorating.

Management's Discussion and Analysis
June 30, 2007
(Continued)

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when events are recorded. For example, Marion County Fiscal Court posts expenses when a check is cut and revenues when a deposit is made. However, Marion County does track contingent liabilities (bills to be paid) as well as bills for services provided but they are not recorded until paid. Furthermore, depreciation expense on capital assets does not generate a cash transaction so they are not recorded.

Government-wide financial statements distinguish the functions of Marion County that are principally supported by tax and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. Marion County's governmental activities include general governmental, protection to persons and property (Marion County Detention Center and animal control), roads, recreation, ambulance service, sanitation and social services. Marion County has one business type activity, which is the jail canteen.

Included in Marion County's government-wide financial statement is Marion County Public Properties, a separate and legal entity that has a significant operational and financial relationship with the county.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Marion County uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. All of the funds of Marion County can be divided into three broad categories: governmental fund, proprietary funds, and fiduciary funds.

Government-Wide Financial Analysis

Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>FY06</u>	<u>FY07</u>	<u>FY06</u>	<u>FY07</u>	<u>FY06</u>	<u>FY07</u>
Current Assets	\$ 2,747,686	\$ 3,030,090	\$ 2,752	\$ 20,424	\$ 2,750,438	\$ 3,050,514
Non-Current Assets	15,175,723	15,434,062	36,284	31,851	15,212,007	15,465,913
Total Assets	17,923,409	18,464,152	39,036	52,275	17,962,445	18,516,427
Current Liabilities	370,915	463,690	7,845	8,305	378,760	471,995
Long-Term Liabilities	8,098,672	7,544,762	10,456	2,151	8,109,128	7,546,913
Total Liabilities	8,469,587	8,008,452	18,301	10,456	8,487,888	8,018,908
Net Assets:						
Invested in capital assets, net of related debt	6,706,136	7,425,610	17,983	21,395	6,724,119	7,447,005
Restricted	2,860			-	2,860	-
Unrestricted	2,744,826	3,030,090	2,752	20,424	2,747,578	3,050,514
Total Net Assets	\$ 9,453,822	\$ 10,455,700	\$ 20,735	\$ 41,819	\$ 9,474,557	\$ 10,497,519

Management's Discussion and Analysis
June 30, 2007
(Continued)

Total net assets increased from \$9,474,557 at June 30, 2006 to \$10,497,519 at June 30, 2007. This is an increase of \$1,022,962. Of that increase \$21,084 is from business-type activities and \$1,001,878 is from government activities. Total assets increased from \$17,962,445 at June 30, 2006 to \$18,516,427 at June 30, 2007. This increase of \$553,982 was due mostly from the increase in cash and cash equivalents in the amount of \$300,076 during the fiscal year. Total liabilities decreased from \$8,487,888 at June 30, 2006 to \$8,018,908 at June 30, 2007. This decrease is due to principal paid on payments.

Statement of Activities

Statement of Activities

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
Revenues:	<u>FY06</u>	<u>FY07</u>	<u>FY06</u>	<u>FY07</u>	<u>FY06</u>	<u>FY07</u>
<u>Program Revenues:</u>						
Charges for Services	\$ 2,076,349	\$ 3,266,532	\$ 126,761	\$ 115,552	\$ 2,203,110	\$ 3,382,084
Operating Grants and Contributions	3,688,791	891,121		-	3,688,791	891,121
Capital Grants and Contributions	792,584	2,793,547			792,584	2,793,547
<u>General Revenue:</u>						
Taxes	2,960,366	3,218,070			2,960,366	3,218,070
Excess Fees	48,517	33,184			48,517	33,184
Miscellaneous Revenues	162,589	640,221		-	162,589	640,221
Gain on Sale of Capital Assets		3,200			-	3,200
Interest	318,404	130,019			318,404	130,019
Total Revenues	10,047,600	10,975,894	126,761	115,552	10,174,361	11,091,446
Expenses						
General Government	883,030	2,964,148			883,030	2,964,148
Protection to Persons and Property	2,851,868	3,533,855			2,851,868	3,533,855
General Health and Sanitation	1,455,745	1,326,271			1,455,745	1,326,271
Social Services	93,303	98,054			93,303	98,054
Recreation and Culture	15,256	350,623			15,256	350,623
Bus Service	38,689				38,689	-
Roads	736,734	917,745			736,734	917,745
Debt Service	667,079	430,053			667,079	430,053
Capital Projects		353,267			-	353,267
Administrative	1,472,275		-	-	1,472,275	-
Jail Canteen			116,814	94,468	116,814	94,468
Total Expenses	8,213,979	9,974,016	116,814	94,468	8,330,793	10,068,484
Change in Net Assets	1,833,621	1,001,878	9,947	21,084	1,843,568	1,022,962
Net Assets July 1, 2005	7,543,888	9,453,822	10,788	20,735	7,554,676	9,474,557
Prior Period Adjustment	76,313				76,313	-
Net Assets June 30, 2006	\$ 9,453,822	\$ 10,455,700	\$ 20,735	\$ 41,819	\$ 9,474,557	\$ 10,497,519

Management's Discussion and Analysis
June 30, 2007
(Continued)

Total expenses for the primary government increased from \$8,330,793 for the year ended June 30, 2006 to \$10,068,484 for fiscal year ended June 30, 2007. This is an increase in expenses of \$1,737,691. Total revenue from all sources increased from \$10,174,361 at June 30, 2006 to \$11,091,446 at June 30, 2007. This is a total increase in revenue of \$917,085. The change in net assets for June 30, 2006 was \$1,843,568 compared to \$1,022,962 at June 30, 2007. This is a decrease of \$820,606 for the current fiscal year.

Statement of Analysis of Individual Funds

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is much narrower than that of the governmental-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Marion County maintains nine (9) individual government funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the General Fund, Road Fund, Jail Fund, L.G.E.A. Fund, St. Joe Community Center Fund, Construction Fund, EMS Fund, Rescue Squad/Slavin Fund, and Animal Control/Slavin Fund.

General Fund. The General Fund is the chief operating fund of Marion County. At FYE June 30, 2007 the General Fund had a fund balance of \$2,468,087. The County received \$2,318,596 in occupational tax revenues. This accounts for approximately 45% of the general fund revenue. The county also received \$1,393,427 in sanitation fees, which is 27% of the general fund. Property tax generated \$681,630 in revenue. This was 13% of the revenue for the general fund. Grants totaled \$99,174, which was 2% of the total revenue. Various other taxes and service fees make up the rest of the remaining 13% of the revenues. There was a prior year carryover of \$2,450,021 and there was \$380,000 transferred to other governmental funds.

A large portion of the general fund expenditures was comprised of salary/wages and benefits. Total salaries/wages for the general fund was \$840,562 and benefits were \$687,664. Benefits and salaries/wages were 32% of the general fund expenses. Other major expenses were capital projects; and various other expenditures make up the rest of the 68%.

The beginning fund balance was \$2,450,021 and ending fund balance was \$2,468,087, resulting in a gain of \$18,066.

Management's Discussion and Analysis
June 30, 2007
(Continued)

General Fund Budgetary Highlights

Actual operating revenues were \$593,012 more than the amount originally budgeted by Fiscal Court. This increase was primarily from intergovernmental sources (Commonwealth of Kentucky and Marion County Sheriff) occupational tax revenues and fees for sanitation services.

Actual operating expenditures were \$635,254 less than the amount originally budgeted by Fiscal Court. Reserve for Transfer accounted for 22% of the amount of expenditures not expended, with Health Insurance accounting for 11%.

Road Fund. The Road Funds income was primarily from the Commonwealth of Kentucky (99%). \$150,000 was transferred from the General Fund and the Road fund had a prior year carryover of \$95,735.

Sixty percent (60%) of the expenditures were for bridges and roads while 26% was for wages and benefits. Vehicles and equipment comprised 9% of the expenditures and various other expenditures comprise the remaining 5%.

The ending fund balance for the road was \$126,501 this is an increase of \$30,766 from the prior year.

Road Fund Budgetary Highlights

Actual operating revenues were \$198,900 more than originally budgeted by the Fiscal Court. This increase was due primarily to a more than expected County Road Aid.

Actual expenditures were \$113,866 less than budgeted. This was caused primarily due to Willis Trail Bridge.

Jail Fund. The jail received 64% of its income from Commonwealth of Kentucky, and 22% was received from Taylor County Fiscal Court and Washington County Fiscal Court. Various other incomes made up the remaining 14%. There were no transfers from the General Fund.

The jail expended 57% of the total expenditures on wages/salary and benefits, 14% on debt service, 9% on food, 6% on medical services and 6% on gasoline and utilities. The remaining 8% were expended on various items.

The beginning fund balance for the jail was \$64,101, and the ending fund balance was \$214,562. This is an increase in fund balance of \$150,461 from the prior year.

Jail Fund Budgetary Highlights

Actual operating revenues were \$225,596 more than originally budgeted. This was primarily due to more Community Custody Housing and Inter-County prisoners than anticipated.

Actual expenditures were \$145,865 less than the original budget. Medical services and Interest on note were the main expenditures that were under the original budget. There were no transfers from the General Fund.

Construction Fund. Marion County spent \$312,654 from the General Fund for the final stage of construction of the Marion County Office Building and received \$508 in interest while having \$296,176 in expenditures leaving a fund balance of \$19,846.

Management's Discussion and Analysis
June 30, 2007
(Continued)

Proprietary Fund

Proprietary funds provide the same type of information as the business-type activity column on the government-wide financial statements, only in more detail. Marion County has only one propriety fund, which is the Jail Canteen Fund.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided.

Capital Assets and Debt Administration

Capital Assets. Marion County's investment in capital assets for its governmental and business type activities as of June 30, 2007 amounts to \$15,465,913 (net of accumulated depreciation) an increase of \$253,906. This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. Marion County has reported infrastructure assets per GASB 34 provisions. Additional information on capital assets can be found in Note 3 to the financial statements.

Long-term debt. At the end of the fiscal year 2007, Marion County had a total long-term debt outstanding of \$8,018,908. This is a decrease of \$468,981 due mostly from paid principal. The amount of debt due within the next fiscal year is \$471,995 (principal). This debt is for the detention center, county office building, van, and backhoe. Additional information on long-term debt can be found in note 4 to the financial statements.

Other Matters

The following factors are expected to have a significant effect on Marion County's financial position or results of operations and were taken into account in developing the 2008 fiscal year budget:

- ◆ The fiscal year ending (FYE) 2008 budget continues most services at current levels with the exception for which state funds are decreasing for projects that were completed and federal funds decreasing for projects completed in FYE 2008.
- ◆ Debt service will decrease due to monies borrowed being paid and will have a positive impact on the general fund.

Request for Information

This financial report is designed to provide a general overview of Marion County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Kevin Cochran, 223 North Spalding Avenue, Lebanon, KY 40033.

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MARION COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

MARION COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 3,030,090	\$ 20,424	\$ 3,050,514
Total Current Assets	3,030,090	20,424	3,050,514
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	417,000		417,000
Buildings and Land Improvements	11,773,548	3,655	11,777,203
Equipment	756,213	8,387	764,600
Vehicles	744,092	19,809	763,901
Infrastructure Assets - Net of Depreciation	1,743,209		1,743,209
Total Noncurrent Assets	15,434,062	31,851	15,465,913
Total Assets	18,464,152	52,275	18,516,427
LIABILITIES			
Current Liabilities:			
Financing Obligations Payable	463,690	8,305	471,995
Total Current Liabilities	463,690	8,305	471,995
Noncurrent Liabilities:			
Financing Obligations Payable	7,544,762	2,151	7,546,913
Total Noncurrent Liabilities	7,544,762	2,151	7,546,913
Total Liabilities	8,008,452	10,456	8,018,908
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	7,425,610	21,395	7,447,005
Unrestricted	3,030,090	20,424	3,050,514
Total Net Assets	\$ 10,455,700	\$ 41,819	\$ 10,497,519

The accompanying notes are an integral part of the financial statements.

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MARION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

MARION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues Received		
		Charges for	Operating	Capital
		Services	Grants and	Grants and
			Contributions	Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,964,148	\$ 8,257	\$ 278,464	\$ 1,470,975
Protection to Persons and Property	3,533,855	3,258,275	379,719	1,118,559
General Health and Sanitation	1,326,271			
Social Services	98,054			204,013
Recreation and Culture	350,623			
Roads	917,745		232,938	
Debt Service	430,053			
Capital Projects	353,267			
Total Governmental Activities	9,974,016	3,266,532	891,121	2,793,547
Business-type Activities:				
Jail Canteen	94,468	115,552		
Total Business-type Activities	94,468	115,552		
Total Primary Government	\$ 10,068,484	\$ 3,382,084	\$ 891,121	\$ 2,793,547

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Occupational License Tax

Other Taxes

Excess Fees

Miscellaneous Revenues

Gain on Sale of Capital Assets

Interest

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MARION COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,206,452)	\$	\$ (1,206,452)
1,222,698		1,222,698
(1,326,271)		(1,326,271)
105,959		105,959
(350,623)		(350,623)
(684,807)		(684,807)
(430,053)		(430,053)
(353,267)		(353,267)
(3,022,816)		(3,022,816)
	21,084	21,084
	21,084	21,084
(3,022,816)	21,084	(3,001,732)
681,630		681,630
4,707		4,707
105,342		105,342
2,318,596		2,318,596
107,795		107,795
33,184		33,184
640,221		640,221
3,200		3,200
130,019		130,019
4,024,694		4,024,694
1,001,878	21,084	1,022,962
9,453,822	20,735	9,474,557
\$ 10,455,700	\$ 41,819	\$ 10,497,519

The accompanying notes are an integral part of the financial statements.

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MARION COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

MARION COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Construction Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and Cash Equivalents	\$ 2,468,087	\$ 126,501	\$ 214,562	\$ 19,846	\$ 201,094	\$ 3,030,090
Total Assets	<u>\$ 2,468,087</u>	<u>\$ 126,501</u>	<u>\$ 214,562</u>	<u>\$ 19,846</u>	<u>\$ 201,094</u>	<u>\$ 3,030,090</u>
FUND BALANCES						
Fund Balances:						
Unreserved:						
General Fund	\$ 2,468,087	\$		\$	\$	\$ 2,468,087
Capital Project Fund				19,846		19,846
Special Revenue Fund		126,501	214,562		201,094	542,157
Total Fund Balances	<u>\$ 2,468,087</u>	<u>\$ 126,501</u>	<u>\$ 214,562</u>	<u>\$ 19,846</u>	<u>\$ 201,094</u>	<u>\$ 3,030,090</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 3,030,090
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	24,254,500
Accumulated Depreciation	(8,820,438)
Long-term debt Is Not Due and Payable in the Current Period and, Therefore, Is Not	
Reported in the Funds.	
Financing Obligations	<u>(8,008,452)</u>
Net Assets Of Governmental Activities	<u>\$ 10,455,700</u>

The accompanying notes are an integral part of the financial statements.

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MARION COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MARION COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Jail Fund	Construction Fund
REVENUES				
Taxes	\$ 3,218,070	\$	\$	\$
Excess Fees	33,184			
Licenses and Permits	8,257			
Intergovernmental	262,725	1,351,497	2,991,273	
Charges for Services	1,470,975		31,538	
Miscellaneous	86,479	9,199	200,924	312,654
Interest	107,322	3,204	13,261	508
Total Revenues	<u>5,187,012</u>	<u>1,363,900</u>	<u>3,236,996</u>	<u>313,162</u>
EXPENDITURES				
General Government	1,105,597			
Protection to Persons and Property	260,994		2,214,634	296,176
General Health and Sanitation	1,361,876			
Social Services	98,054			
Recreation and Culture	146,610			
Roads	39,960	1,356,794		
Debt Service	472,346		418,843	
Capital Projects	353,267			
Administration	950,242	126,340	453,058	
Total Expenditures	<u>4,788,946</u>	<u>1,483,134</u>	<u>3,086,535</u>	<u>296,176</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>398,066</u>	<u>(119,234)</u>	<u>150,461</u>	<u>16,986</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		150,000		
Transfers To Other Funds	<u>(380,000)</u>			
Total Other Financing Sources (Uses)	<u>(380,000)</u>	<u>150,000</u>		
Net Change in Fund Balances	18,066	30,766	150,461	16,986
Fund Balances - Beginning (Restated)	2,450,021	95,735	64,101	2,860
Fund Balances - Ending	<u>\$ 2,468,087</u>	<u>\$ 126,501</u>	<u>\$ 214,562</u>	<u>\$ 19,846</u>

The accompanying notes are an integral part of the financial statements.

MARION COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 3,218,070
	33,184
	8,257
251,780	4,857,275
614,438	2,116,951
2,882	612,138
5,724	130,019
<u>874,824</u>	<u>10,975,894</u>
	1,105,597
664,212	3,436,016
8,257	1,370,133
	98,054
204,013	350,623
	1,396,754
	891,189
	353,267
<u>162,217</u>	<u>1,691,857</u>
<u>1,038,699</u>	<u>10,693,490</u>
<u>(163,875)</u>	<u>282,404</u>
230,000	380,000
	<u>(380,000)</u>
<u>230,000</u>	
66,125	282,404
134,969	2,747,686
<u>\$ 201,094</u>	<u>\$ 3,030,090</u>

The accompanying notes are an integral part of the financial statements.

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**MARION COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

MARION COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

**Reconciliation Of The Statement Of Revenues, Expenditures and Changes
In Fund Balance - Governmental Funds To The Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ 282,404
--	------------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	976,890
----------------	---------

Depreciation Expense	(718,552)
----------------------	-----------

Lease principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligation Principal Payments	461,136
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Change in Net Assets of Governmental Activities	\$ 1,001,878
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MARION COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS

June 30, 2007

MARION COUNTY
STATEMENT OF NET ASSETS – PROPRIETARY FUND – MODIFIED CASH BASIS

June 30, 2007

	Business - Type Activities
	Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 20,424
Total Current Assets	<u>20,424</u>
Noncurrent Assets:	
Capital Assets:	
Buildings and Land Improvements	4,120
Equipment	11,998
Vehicles	24,011
Less Accumulated Depreciation	<u>(8,278)</u>
Total Noncurrent Assets	<u>31,851</u>
Total Assets	<u>52,275</u>
Liabilities	
Current Liabilities	
Financing Obligation	8,305
Noncurrent Liabilities	
Financing Obligation	<u>2,151</u>
Total Liabilities	<u>10,456</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	21,395
Unrestricted	<u>20,424</u>
Total Net Assets	<u>\$ 41,819</u>

The accompanying notes are an integral part of the financial statements.

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MARION COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS –
PROPRIETARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MARION COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS –
PROPRIETARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	<u>Business - Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts	\$ 115,552
Total Operating Revenues	<u>115,552</u>
Operating Expenses	
Cost of Sales	29,902
Educational and Recreational	25,274
Personnel Cost	14,615
Depreciation	4,432
Miscellaneous	<u>20,245</u>
Total Operating Expenses	<u>94,468</u>
Operating Income	<u>21,084</u>
Change In Net Assets	21,084
Total Net Assets - Beginning	<u>20,735</u>
Total Net Assets - Ending	<u><u>\$ 41,819</u></u>

The accompanying notes are an integral part of the financial statements.

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MARION COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MARION COUNTY
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	<u>Business - Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 115,552
Cost of Sales	(29,060)
Educational and Recreational	(25,274)
Personnel Cost	(14,615)
Miscellaneous	(21,087)
Net Cash Provided (Used) By Operating Activities	<u>25,516</u>
Cash Flows From Financing Activities	
Decrease in Financing Obligation Principal	<u>(7,845)</u>
Net Cash Provided By Financing Activities	<u>(7,845)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	17,671
Cash and Cash Equivalents - July 1, 2006	<u>2,753</u>
Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 20,424</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 21,084
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities	
Depreciation Expense	<u>4,432</u>
Net Cash Provided (Used) By Operating Activities	<u><u>\$ 25,516</u></u>

The accompanying notes are an integral part of the financial statements.

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MARION COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS – MODIFIED CASH BASIS

June 30, 2007

MARION COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS – MODIFIED CASH BASIS

June 30, 2007

	<u>Agency Fund</u>
	Jail
	Canteen
	Inmate
	<u>Trust Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 19,408
Total Assets	<u>\$ 19,408</u>
Liabilities	
Amounts Held In Custody For Others	<u>19,408</u>
Total Liabilities	<u>\$ 19,408</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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MARION COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Marion County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Marion County Public Properties Corporation

The Public Properties Corporation is a legally separate organization that provides its services exclusively to the primary government. This component unit cannot be sued in its own name without recourse to the Marion County Fiscal Court, which appoints a voting majority consisting of the Fiscal Court members. The Fiscal Court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the Fiscal Court per KRS 58.180 to act as the agent in the acquisition and financing of any public project. The Fiscal Court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the Fiscal Court.

C. Marion County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Marion County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Marion County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Construction Fund - This fund accounts for the activity involved in construction of the new county office building.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, EMS Fund, Animal Control/Slavin Fund, Rescue Squad/Slavin Fund, and St. Joe Community Center Fund.

Note 1. Summary of Significant Accounting Policies (Continued)

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, EMS Fund, Animal Control/Slavin Fund, Rescue Squad/Slavin Fund, and St. Joe Community Center Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Construction Fund is presented as a capital projects fund. Capital projects funds are to account for the acquisition or construction of major capital facilities.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund – The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Canteen Inmate Trust Fund – These funds account for various payroll related withholdings and the jail inmate monies held for custodial purposes only until remitted to the proper agencies or individuals.

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	All	10-60
Buildings and Building Improvements	\$ 10,000	10-75
Machinery and Equipment	\$ 1,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 20,000	12-25

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Marion County Construction Fund to be budgeted because the net payments are budgeted within the county funds.

Note 2. Deposits

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county's deposits may not be returned. The county does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of August 31, 2006 and June 30, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the county's deposits in accordance with the security agreement.

- Uncollateralized and uninsured \$271,655 as of August 31, 2006
- Uncollateralized and uninsured \$374,345 as of June 30, 2007

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 417,000	\$	\$	\$ 417,000
Total Capital Assets Not Being Depreciated	417,000			417,000
Capital Assets, Being Depreciated:				
Buildings and Land Improvements	17,422,625	69,000		17,491,625
Equipment	1,612,858	56,750		1,669,608
Vehicles	2,504,408	178,512	(53,000)	2,629,920
Infrastructure	1,373,719	672,628		2,046,347
Total Capital Assets Being Depreciated	22,913,610	976,890	(53,000)	23,837,500
Less Accumulated Depreciation For:				
Buildings and Land Improvements	(5,422,074)	(296,003)		(5,718,077)
Equipment	(789,636)	(123,759)		(913,395)
Vehicles	(1,796,520)	(142,308)	53,000	(1,885,828)
Infrastructure	(146,656)	(156,482)		(303,138)
Total Accumulated Depreciation	(8,154,886)	(718,552)	53,000	(8,820,438)
Total Capital Assets, Being Depreciated, Net	14,758,724	258,338		15,017,062
Governmental Activities Capital Assets, Net	\$ 15,175,724	\$ 258,338	\$ 0	\$ 15,434,062

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets (Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Buildings	\$ 4,120	\$	\$	\$ 4,120
Equipment	11,998			11,998
Vehicles	24,011			24,011
Total Capital Assets Being Depreciated	<u> 40,129</u>			<u> 40,129</u>
Less Accumulated Depreciation For:				
Buildings	(258)	(207)		(465)
Equipment	(1,787)	(1,824)		(3,611)
Vehicles	<u> (1,801)</u>	<u> (2,401)</u>		<u> (4,202)</u>
Total Accumulated Depreciation	<u> (3,846)</u>	<u> (4,432)</u>		<u> (8,278)</u>
Total Capital Assets, Being Depreciated, Net	<u> 36,283</u>	<u> (4,432)</u>		<u> 31,851</u>
Business-Type Activities Capital Assets, Net	<u>\$ 36,283</u>	<u>\$ (4,432)</u>	<u>\$ 0</u>	<u>\$ 31,851</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 166,694
Protection to Persons and Property	246,351
General Health and Sanitation	55,138
Roads, Including Depreciation of General Infrastructure Assets	<u>250,369</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 718,552</u>
<u>Business-Type Activities:</u>	
Jail Canteen	<u>\$ 4,432</u>
Total Depreciation Expense - Business Activities	<u>\$ 4,432</u>

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt

A. Marion County Detention Center

On June 10, 1998, Marion County Public Properties Corporation entered into a contract, lease, and option in the amount of \$5,400,00 from Community Trust Bank, F.S.B. for the purpose of funding the expansion of the Marion County Detention Center. The estimated cost of the expansion was \$1,990,046; the remaining balance of the contract lease and option was used to pay off the financing statement with Star Bank, N.A. for the original construction. The interest rate is variable and is calculated based on the outstanding principal. Payments are made quarterly. The date of the final maturity of the obligation is May 1, 2018. As of June 30, 2007, the outstanding principal balance was \$3,629,247. Principal payment requirements for the remaining term of the contract are as follows:

Governmental Activities	
Fiscal Year Ended	
June 30	Principal
2008	\$ 264,000
2009	274,000
2010	286,000
2011	298,000
2012	312,000
2013-2017	1,808,000
2018	387,247
Totals	<u>\$ 3,629,247</u>

B. Marion County Administration Building

On December 16, 2003, Marion County Public Properties Corporation entered into a contract, lease, and option in the amount of \$3,500,000 from Farmers National Bank for the purpose of funding the construction of the Marion County administration building. The interest rate is variable and is calculated based on the outstanding principal. Payments are made quarterly. The date of the final maturity of the obligation is November 1, 2023. As of June 30, 2007, the outstanding principal balance was \$3,192,825. Principal payment requirements for the remaining term of the contract are as follows:

Governmental Activities	
Fiscal Year Ended	
June 30	Principal
2008	\$ 135,890
2009	143,330
2010	150,770
2011	158,210
2012	165,650
2013-2017	939,850
2018-2022	1,125,850
2023-2024	373,275
Totals	<u>\$ 3,192,825</u>

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

C. Marion County Administration Building

On December 7, 2005, Marion County Public Properties Corporation entered into a contract, lease, and option in the amount of \$300,000 from US Bank for the purpose of funding the construction of the Marion County administration building. The date of the final maturity of the obligation is July 20, 2015. As of June 30, 2007, the outstanding principal balance was \$275,000. Principal payment requirements and scheduled interest for the remaining term of the contract are as follows:

Governmental Activities		
Fiscal Year Ended		
June 30	Principal	Interest
2008	\$ 25,000	\$ 12,070
2009	25,000	11,058
2010	30,000	9,652
2011	30,000	8,223
2012	30,000	7,374
2013-2015	135,000	10,799
Totals	\$ 275,000	\$ 59,176

D. Marion County Administration Building

On August 20, 2004, Marion County Public Properties Corporation entered into a contract, lease, and option in the amount of \$1,000,000 from Farmers National Bank for the purpose of funding the construction of the Marion County administration building. The interest rate is variable and is calculated based on the outstanding principal. Payments are made quarterly. The date of the final maturity of the obligation is November 1, 2023. As of June 30, 2007, the outstanding principal balance was \$911,380. Principal payment requirements for the remaining term of the contract are as follows:

Governmental Activities	
Fiscal Year Ended	
June 30	Principal
2008	\$ 38,800
2009	40,800
2010	43,000
2011	45,130
2012	47,200
2013-2017	268,090
2018-2022	321,600
2023-2024	106,760
Totals	\$ 911,380

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

E. Van

On October 14, 2005, Marion County Jail Canteen Fund entered into a lease agreement for a van with Daimler Chrysler Truck Finance, Inc. at a rate of 5.72 percent. The date of the final maturity of the obligation is September 9, 2008. As of June 30, 2007, the outstanding principal balance was \$10,456. Principal payment requirements and scheduled interest for the remaining term are as follows:

Fiscal Year Ended June 30	Business-Type Activities	
	Principal	Interest
2008	\$ 8,305	\$ 383
2009	2,151	21
Totals	<u>\$ 10,456</u>	<u>\$ 404</u>

F. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Financing Obligations	<u>\$ 8,469,588</u>	<u>\$</u>	<u>\$ 461,136</u>	<u>\$ 8,008,452</u>	<u>\$ 463,690</u>
Governmental Activities Long-term Liabilities	<u>\$ 8,469,588</u>	<u>\$ 0</u>	<u>\$ 461,136</u>	<u>\$ 8,008,452</u>	<u>\$ 463,690</u>
Business Type Activities Long-term Liabilities	<u>\$ 18,301</u>	<u>\$ 0</u>	<u>\$ 7,845</u>	<u>\$ 10,456</u>	<u>\$ 8,305</u>

Note 5. Interest on Long-term Debt and Financing Obligations

Debt service on the Statement of Activities includes \$378,604 in interest on financing obligations.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent.

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

On February 24, 2000, the Marion County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full-time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2007, Marion County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustments

The beginning balance of the general fund was increased by \$988 for prior year checks that were voided. The beginning balance of the jail fund was decreased by \$202 due to prior year errors and increased \$24,075 for the jail detention grant. The EMS fund beginning balance was increased by \$143 for prior year checks that were voided. In addition, the governmental activities beginning balance was increased \$61,149 for accrued interest recorded in the prior year, decreased \$2,120 for interest receivable recorded in the prior year, decreased \$7,720 for a financing obligation that was not previously included and for the adjustments to the various funds mentioned previously.

MARION COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 10. Construction/Demolition Debris Landfill

Marion County has a less-than-one acre construction/demolition debris landfill. The Fiscal Court has entered into a lease agreement for the land. The lease payment is \$25,000 a year. Closure of the landfill is estimated to occur in two years. Marion County is not required to set up a fund for post closure costs. The closure requirements are that the landfill shall be covered with a soil cap two feet thick, within thirty days of ceasing to accept waste and grass seed must be sowed.

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MARION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

MARION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 2,941,000	\$ 2,941,000	\$ 3,218,070	\$ 277,070
Excess Fees			33,184	33,184
Licenses and Permits	2,000	2,000	8,257	6,257
Intergovernmental Revenue	115,000	115,000	262,725	147,725
Charges for Services	1,395,000	1,395,000	1,470,975	75,975
Miscellaneous	95,000	95,000	86,479	(8,521)
Interest	46,000	46,000	107,322	61,322
Total Revenues	<u>4,594,000</u>	<u>4,594,000</u>	<u>5,187,012</u>	<u>593,012</u>
EXPENDITURES				
General Government	1,042,919	1,210,519	1,105,597	104,922
Protection to Persons and Property	234,500	273,000	260,994	12,006
General Health and Sanitation	1,246,000	1,456,600	1,361,876	94,724
Social Services	97,500	168,000	98,054	69,946
Recreation and Culture	36,000	148,500	146,610	1,890
Bus Services	40,000	40,000	39,960	40
Debt Service	407,867	524,367	472,346	52,021
Capital Projects	119,034	359,034	353,267	5,767
Administration	2,389,380	1,244,180	950,242	293,938
Total Expenditures	<u>5,613,200</u>	<u>5,424,200</u>	<u>4,788,946</u>	<u>635,254</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,019,200)</u>	<u>(830,200)</u>	<u>398,066</u>	<u>1,228,266</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(480,800)</u>	<u>(480,800)</u>	<u>(380,000)</u>	<u>100,800</u>
Total Other Financing Sources (Uses)	<u>(480,800)</u>	<u>(480,800)</u>	<u>(380,000)</u>	<u>100,800</u>
Net Changes in Fund Balance	(1,500,000)	(1,311,000)	18,066	1,329,066
Fund Balance - Beginning (Restated)	<u>1,500,000</u>	<u>1,500,000</u>	<u>2,450,021</u>	<u>950,021</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 189,000</u>	<u>\$ 2,468,087</u>	<u>\$ 2,279,087</u>

MARION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,153,000	\$ 1,153,000	\$ 1,351,497	\$ 198,497
Miscellaneous	10,000	10,000	9,199	(801)
Interest	2,000	2,000	3,204	1,204
Total Revenues	<u>1,165,000</u>	<u>1,165,000</u>	<u>1,363,900</u>	<u>198,900</u>
EXPENDITURES				
Roads	1,249,559	1,443,659	1,356,794	86,865
Administration	158,441	153,341	126,340	27,001
Total Expenditures	<u>1,408,000</u>	<u>1,597,000</u>	<u>1,483,134</u>	<u>113,866</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(243,000)</u>	<u>(432,000)</u>	<u>(119,234)</u>	<u>312,766</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>100,000</u>	<u>100,000</u>	<u>150,000</u>	<u>50,000</u>
Total Other Financing Sources (Uses)	<u>100,000</u>	<u>100,000</u>	<u>150,000</u>	<u>50,000</u>
Net Changes in Fund Balance	(143,000)	(332,000)	30,766	362,766
Fund Balance - Beginning	<u>143,000</u>	<u>143,000</u>	<u>95,735</u>	<u>(47,265)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (189,000)</u>	<u>\$ 126,501</u>	<u>\$ 315,501</u>

MARION COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 2,830,400	\$ 2,830,400	\$ 2,991,273	\$ 160,873
Charges for Services	36,000	36,000	31,538	(4,462)
Miscellaneous	141,000	141,000	200,924	59,924
Interest	4,000	4,000	13,261	9,261
Total Revenues	<u>3,011,400</u>	<u>3,011,400</u>	<u>3,236,996</u>	<u>225,596</u>
EXPENDITURES				
Protection to Persons and Property	2,222,600	2,288,100	2,214,634	73,466
Debt Service	457,000	457,000	418,843	38,157
Administration	552,800	487,300	453,058	34,242
Total Expenditures	<u>3,232,400</u>	<u>3,232,400</u>	<u>3,086,535</u>	<u>145,865</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(221,000)</u>	<u>(221,000)</u>	<u>150,461</u>	<u>371,461</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>121,000</u>	<u>121,000</u>		<u>(121,000)</u>
Total Other Financing Sources (Uses)	<u>121,000</u>	<u>121,000</u>		<u>(121,000)</u>
Net Changes in Fund Balance	(100,000)	(100,000)	150,461	250,461
Fund Balance - Beginning (Restated)	<u>100,000</u>	<u>100,000</u>	<u>64,101</u>	<u>(35,899)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 214,562</u>	<u>\$ 214,562</u>

MARION COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The construction fund is not required to be budgeted by the treasurer because the net payments are budgeted within the county funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MARION COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

MARION COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	LGEA Fund	EMS Fund	Animal Control/ Slavin Fund	Rescue Squad/ Slavin Fund	St. Joe Community Center Fund	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 115,250	\$ 44,505	\$ 16,303	\$ 25,036	\$	\$ 201,094
Total Assets	<u>\$ 115,250</u>	<u>\$ 44,505</u>	<u>\$ 16,303</u>	<u>\$ 25,036</u>	<u>\$ 0</u>	<u>\$ 201,094</u>
FUND BALANCES						
Unreserved:						
Special Revenue Funds	\$ 115,250	\$ 44,505	\$ 16,303	\$ 25,036	\$	\$ 201,094
Total Fund Balances	<u>\$ 115,250</u>	<u>\$ 44,505</u>	<u>\$ 16,303</u>	<u>\$ 25,036</u>	<u>\$ 0</u>	<u>\$ 201,094</u>

The accompanying notes are an integral part of the financial statements.

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MARION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

MARION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	LGEA Fund	EMS Fund	Animal Control/ Slavin Fund	Rescue Squad/ Slavin Fund	St. Joe Community Center Fund
REVENUES					
Intergovernmental	\$ 37,083	\$ 10,684	\$	\$	204,013
Charges for Services		614,438			
Miscellaneous		926	1,956		
Interest	3,770	241	757	956	
Total Revenues	<u>40,853</u>	<u>626,289</u>	<u>2,713</u>	<u>956</u>	<u>204,013</u>
EXPENDITURES					
Protection to Persons and Property		659,212		5,000	
General Health and Sanitation			8,257		
Recreation and Culture					204,013
Administration		162,217			
Total Expenditures	<u></u>	<u>821,429</u>	<u>8,257</u>	<u>5,000</u>	<u>204,013</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>40,853</u>	<u>(195,140)</u>	<u>(5,544)</u>	<u>(4,044)</u>	<u></u>
Other Financing Sources (Uses)					
Transfers From Other Funds		230,000			
Transfers To Other Funds					
Total Other Financing Sources (Uses)	<u></u>	<u>230,000</u>	<u></u>	<u></u>	<u></u>
Net Change in Fund Balances	40,853	34,860	(5,544)	(4,044)	
Fund Balances - Beginning (Restated)	74,397	9,645	21,847	29,080	
Fund Balances - Ending	<u>\$ 115,250</u>	<u>\$ 44,505</u>	<u>\$ 16,303</u>	<u>\$ 25,036</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

MARION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007
(Continued)

Total Non-Major Governmental Funds	
\$	251,780
	614,438
	2,882
	5,724
	<u>874,824</u>
	664,212
	8,257
	204,013
	<u>162,217</u>
	<u>1,038,699</u>
	<u>(163,875)</u>
	230,000
	<u>230,000</u>
	66,125
	<u>134,969</u>
\$	<u><u>201,094</u></u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John G. Mattingly, Marion County Judge/Executive
Members of the Marion County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 18, 2008. Marion County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marion County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Marion County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Marion County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

March 18, 2008

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MARION COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

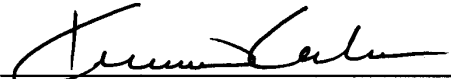
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MARION COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Marion County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



John G. Mattingly
County Judge/Executive



Kevin Cochran
County Treasurer

